

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

**AUDITOR/CONTROLLER** • 222 West Hospitality Lane, Fourth Floor  
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

**RECORDER • COUNTY CLERK** • 222 West Hospitality Lane, First Floor  
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

**LARRY WALKER**  
Auditor/Controller-Recorder  
County Clerk

**ELIZABETH A. STARBUCK**  
Assistant Auditor/Controller-Recorder  
Assistant County Clerk

May 9, 2006

**Michael E. Hays**, Director  
Land Use Services Department  
385 N. Arrowhead Ave. 3<sup>rd</sup> Floor  
San Bernardino, CA 92415-0187

**SUBJECT: INTERNAL CONTROL RECOMMENDATIONS RELATED TO THE CASH  
THEFT OF \$7,590 AT THE LAND USE SERVICES- BUILDING & SAFETY  
DIVISION, VICTORVILLE OFFICE.**

## **Introductory Remarks**

In compliance with Article V, Section 6 of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, Chapters 2 and 3 of the Internal Controls and Cash Standards Practice Manual, we completed an audit of the cash theft and the internal controls in place over cash at the Land Use Services Department - Building & Safety Division's (Department) Victorville office.

## **Background**

The Department processes cash transactions for itself and Public Works Transportation and Flood Control Divisions (Trans/Flood) in the Victorville office.

The Department reported a cash loss of \$5,655 belonging to Trans/Flood on January 30, 2006 to the Auditor/Controller-Recorder's Office. The Department also requested an audit of internal controls over cash at its Victorville office. The loss was also reported to Risk Management, Victorville Police Department and District Attorney. Additional investigation showed an additional \$1,935 was missing, for a total Trans/Flood cash loss of \$7,590.

## **Audit Scope**

Our overall objective was to determine whether policies and procedures regarding cash handling and receipting were established and operating effectively.

We conducted our audit according to the "Standards for Professional Practice of Internal Auditing" published by the Institute of Internal Auditors and the provisions of the San Bernardino County Internal Controls and Cash Standard Practice Manual.

A draft report was sent to the Department and was discussed at the Exit Conference on 10/25/2006. The Department response to our recommendations dated 10/26/2006 is included in this report.

### **Conclusion**

In our opinion, the overall cash handling internal controls for the Department's Victorville office were inadequate and required corrective action. During our testing of cash controls, we noted internal control weaknesses over cash needing attention, as discussed below.

## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1: Lack of internal controls.**

The County of San Bernardino Internal Controls and Cash Manual requires managers to establish internal controls to safeguard assets, provide reliable financial reports, and comply with applicable laws and regulations. This includes, but is not limited to, appropriate cash handling procedures, surprise cash counts, securing safes and their combinations, and locating cash operations in secure areas.

During our audit we noted the following:

- There were no procedures for receipting Trans/Flood transactions such as a log of transactions, fee schedules, or for cash transactions. A contributing cause was the lack of a formal written agreement between Trans/Flood and the Department.
- The Department's cash receipting procedures were not followed by employees in the Victorville office.
- Surprise cash counts or transaction reviews were not conducted by the Victorville office supervisor.
- Unrestricted access to the cashiering station existed.
- The safe's physical location and orientation did not safeguard the combination while being opened.

The Departments' Victorville office supervisor was aware of the requirements for safeguarding cash, but had not implemented all of the necessary internal controls. Compliance with County policy for internal controls over cash could have prevented the cash loss or resulted in its prompt detection.

### **Recommendations**

The Department Director should:

- Establish formal written procedures for all transactions which the department is processing for other departments including Trans/Flood. Consider formalizing the agreement between the Department and Trans/Flood.
- Ensure that Department's Victorville office employees are knowledgeable of cash handling procedures through training, formal guidance, and supervision.
- Reconcile daily cash receipts to transaction records, bank deposits, and FAS.
- Conduct periodic surprise cash counts.
- Restrict access to cashiering areas.
- Locate and orientate the safe so it can be opened without other parties seeing the combination.
- Ensure the safe combination is only given to authorized personnel.

### **Management Response**

The Land Use Services Department (LUSD) has reviewed the Auditor/Controller-Recorder's Office report and recommendations.

On Thursday, January 26, 2006 the Victorville office reported missing cash to the Building Official. The Administrative staff in San Bernardino immediately began an audit of all deposits to ensure that the money hadn't been mistakenly deposited with the Building & Safety receipts. By Monday, January 30<sup>th</sup> it was determined that the money had been stolen. Calls were made to the Victorville Police, Auditor/Controller-Recorder Internal Audit Division, and Risk Management. In addition, management began determining what process changes were required to prevent another theft from occurring.

At the time, all LUSD transactions were being processed through the Permits Plus system, which were then verified by Administrative staff in San Bernardino. Only the Transportation funds were targeted because the tracking and verification of those deposits was not as tightly controlled, and they were being

deposited directly into a Public Works bank account. LUSD staff made the required programming changes to the Permits Plus system on February 6, 2006.

Effective February 9, 2006 the following changes to the collection of Transportation fees were implemented:

1. All Transportation transactions are input and receipted through the Land Use Services Permit tracking program (Permits Plus), which are then reconciled to daily reports and deposited by the Victorville office into a Building & Safety Division bank account.
2. Deposit documents are sent to the San Bernardino office for review, verification and reconciliation with the Permits Plus System, the County's FAS system, and Bank of America.
3. Once a month the San Bernardino office initiates a transfer to move revenue from the Building & Safety Division of LUSD to the Transportation Division of Public Works.
4. LUSD Administrative staff has developed a close working relationship with the Transportation Division to track these transactions.
5. The safe has been moved to a location that restricts access and does not allow for staff to view the safe combination while it is being opened.
6. Increased training, review and oversight of the deposit process from the San Bernardino Administrative staff have been implemented.
7. Periodic surprise audits of funds by the Victorville Supervisor and LUSD Administrative staff will be performed.

The only recommendation that remains to be addressed is a formal MOU between Land Use Services and Public Works for the collection of these Transportation funds.

The County no longer employs the person who committed the theft. The Sheriff and District Attorney were successful in prosecuting the employee. The Probation Department was successful in ensuring that all of the money was returned to LUSD.

#### **Auditor's Response**

The Department's response addresses planned actions to correct deficiencies noted in the findings. However, the only recommendation that remains is the

AudRpt/Michael E. Hays, Director  
Land Use Services Department  
May 9, 2006  
Page 5

establishment and implementation of a written agreement between Land Use Services and Public Works for the collection of these Transportation funds as stated above.

Respectfully submitted,

**Larry Walker**  
Auditor/~~Controller-Recorder~~

By:

Asdghik Kiwanian  
Internal Auditor II

Copies to:

Risk Management  
Gerry Newcombe, Associate Administrative  
Officer, PSSG  
Barbara Johnston, Deputy Director, Building Official  
Ruth Rice, Admin. Supervisor II  
Betty Stevens, Victorville LUS Supervisor

Quarterly copies to:

County Administrative Office  
Board of Supervisors  
Grand Jury (2)

Audit File (3)

Audit Report Distributed: 12/7/06

LDW:AK:wds1